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Order Instituting Rulemaking to Oversee  
the Resource Adequacy Program,  
Consider Program Refinements, and  
Establish Annual Local and Flexible  
Procurement Obligations for the 2019 and  
2020 Compliance Years.

**SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)  
COMMENTS ON PROPOSED DECISION ADOPTING  
LOCAL CAPACITY OBLIGATIONS FOR 2019 AND  
REFINING THE RESOURCE ADEQUACY PROGRAM**

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June 11, 2018

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee	)	
the Resource Adequacy Program,	)	Rulemaking 17-09-020
Consider Program Refinements, and	)	(Filed September 28, 2017)
Establish Annual Local and Flexible	)	
Procurement Obligations for the 2019 and	)	
2020 Compliance Years.	)	
_____	)	

**SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)  
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**I.  
INTRODUCTION**

In accordance with Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas & Electric Company (“SDG&E”) submits these comments regarding the Proposed *Decision Adopting Local Capacity Obligations for 2019 and Refining the Resource Adequacy Program* (“PD”).

The PD adopts 2019 local capacity requirements (“LCRs”) for Commission-jurisdictional electric load-serving entities (“LSEs”), sets forth a process for adoption of flexible capacity requirements for 2019, makes minor changes to the Resource Adequacy (“RA”) program, and provides policy and procedural guidance for future tracks of this proceeding.<sup>1/</sup> As discussed below, SDG&E offers limited proposed revisions to the PD

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<sup>1/</sup> PD, p. 2. The PD also adopts flexible compliance requirements for 2019, but a separate proposed decision issued in the proceeding on June 1, 2018 supersedes this aspect of the PD.

intended to: (i) address the need for greater transparency in the methodology used by the California Independent System Operator (“CAISO”) in preparing its LCR study; (ii) clarify implementation details for the multi-year Local RA requirement; (iii) prevent stranding of Flexible capacity due to the multi-year Local capacity requirement; (iv) ensure procurement of potentially retiring resources that are needed to meet local reliability needs for 2019 at reasonable cost; and (v) better align the timing of updated Availability Assessment Hours to the utilization of those updates.

## **II. DISCUSSION**

### ***A. Adoption of 2019 LCR***

The PD adopts the CAISO’s recommended 2019 LCR values, “[w]ith reservations and concerns.”<sup>2/</sup> As the PD correctly points out, concerns have been raised by parties including SDG&E regarding the lack of transparency of the CAISO’s LCR methodology. SDG&E has been consistently unable to reproduce the CAISO’s LCR results, which the PD notes is “a problem that needs to be addressed going forward.”<sup>3/</sup> The opaqueness of the CAISO’s study process created serious deficiencies in the 2019 LCR study, including obscuring data that would allow the Commission to assess whether cost shifting is occurring in the Greater San Diego-Imperial Valley (“SD-IV”) and Los Angeles (LA) Basin areas.<sup>4/</sup>

SDG&E detailed its concerns regarding the analysis of the SD-IV and LA Basin areas in its earlier filings in the instant proceeding and will not repeat that discussion here, except to reiterate the importance of increased transparency in the CAISO’s LCR

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<sup>2/</sup> *Id.* at p. 8.

<sup>3/</sup> *Id.* at p. 6.

<sup>4/</sup> *See id.*

methodology going forward. Consistent with the PD's observation that the current lack of transparency is a problem that needs to be addressed, SDG&E submits that the PD should be revised to expressly find that: (i) the CAISO's LCR methodology is insufficiently transparent; (ii) the CAISO should ensure transparency of the LCR methodology and provide the assumption data necessary to allow parties to test the validity of the study results; (iii) the CAISO should examine the Greater SD-IV and LA Basin areas separately, in addition to examining these areas together; and (iv) the CAISO should provide the iterative results of the SD-IV area study in order to determine if any cost shifting occurs.

***B. Multiple Year-Ahead Procurement***

***1. Multi-Year Local RA Requirement***

The PD notes the Commission's intent to implement a multi-year Local RA requirement in Track 2 of this proceeding.<sup>5/</sup> To this end, it directs parties to include in their Track 2 testimony proposals for multi-year Local RA requirement with a three-to-five-year duration, which would be implemented "beginning with the 2020 RA program year."<sup>6/</sup>

SDG&E supports the decision to adopt multi-year Local RA requirements starting in 2020. It notes, however, that the PD must be revised to clarify what is meant by "implementation beginning with the 2020 RA program year." It is not clear whether the reference here is to compliance year 2020 or the process year 2020, which would be for the compliance year 2021. The process year for the 2020 compliance year would start in April 2019, with the submission of the load forecast.

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<sup>5/</sup> PD, p. 24.

<sup>6/</sup> *Id.* at p. 25.

The procedural schedule in Track 2 currently contemplates issuance of a proposed decision in Track 2 in Q4 of 2018, which means that a final decision in Track 2 could be issued in late 2018 or early 2019. While certain issues remain to be resolved in Track 2 – *i.e.*, the role of a central procurement agency and the percentage of requirements to be shown for Year 3 through Year 5 – LSEs must comply with the order to show five years of RA capacity starting in program year 2020, even if a central procurement agent role is not adopted. This timing would make implementation of a multi-year Local RA requirement for compliance year 2020 very challenging. Establishing a five-year Local RA requirement would require LCR studies that inclusively provide all five years forward. These studies do not currently exist. The CAISO has individual annual Local needs for 2021 through 2023 that were developed in different years and using different inputs, but mixing different studies and/or relying on piecemeal assumption could lead to unnecessary procurement. Instead, LSEs should have future requirements that are based on a consistent set of assumptions.

In order to determine appropriate requirements, LSEs would also have to potentially submit five years of forecasts to the Commission and the California Energy Commission (CEC). Processes such as these must be developed prior to implementation, thus the timeline contemplated in the PD must be clarified. In addition, the PD must be clarified to address whether CCAs that intend to start service in 2023, for example, must provide their load forecasts during the first iteration of the multi-year requirement in 2020 or would instead be allowed to wait until 2022 to submit their rolling five-year forecasts.

If the Commission does intend to implement a multi-year Local RA requirement

for the 2020 compliance year, it should revise the PD to direct the Energy Division (“ED”) to hold implementation workshops prior to the start of the 2020 year-ahead process.

## 2. Multi-Year Flexible and System RA Requirements

The PD defers consideration of multi-year requirements for Flexible and System RA in this proceeding, noting that the Commission may consider an expansion of multi-year requirements to Flexible and/or System RA in the future.<sup>7/</sup> SDG&E submits that in light of the stated intent in the PD to adopt a multi-year Local RA requirement, the failure to adopt a companion multi-year Flexible RA requirement is ill-advised.

Capacity is procured on a bundled basis – Flexible RA is bundled with System and Local. If an LSE procures capacity as Flexible, it comes with Local and System, provided that those attributes are recognized in the transaction. From a technical perspective, if capacity is procured as solely Local or System (*i.e.*, the Flexible attribute is not recognized in the transaction), it is not possible to later amend the transaction to provide Flexible; the procurement of Flexible must occur at the time of the transaction. Thus, procuring *only* Local RA eliminates the fungibility of the capacity product – capacity that could be used for Flexibility purposes would be stranded since the Flexibility attribute was not recognized in the original transaction.

Creating a stand-alone multi-year Local RA requirement means that LSEs would procure a multi-year Local-only capacity product, without the Flexible attribute. As explained above, this is problematic inasmuch as failing to include the Flexibility attribute in the multi-year transaction means that the opportunity to use the capacity

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<sup>7/</sup> *Id.* at pp. 24-25.

resource for Flexibility purposes is lost. This is contrary to the goal of enhancing grid flexibility. The solution is to require LSEs procuring Local capacity that is capable of flexibility as Flexible to preserve *all* attributes. It is important to note that this approach would not result in a stand-alone multi-year requirement for Flexible capacity; rather, it would simply require that when an LSE procures capacity to meet its multi-year Local capacity, and that Local capacity is capable of flexibility, the LSE should procure the Flexible attribute along with the Local capacity. While the CAISO is considering changes to the definition of Flexible capacity, it is reasonable to expect that LSEs' existing Flexibility products will be usable.

***C. Short-Term Solutions for 2019***

The PD notes that in response to the potential retirement of the Ellwood Generating Station ("Ellwood") and Ormond Beach ("Ormond Beach") facilities, the CAISO has indicated that it intends to seek a reliability-must run ("RMR") designation for Ellwood and one of the Ormond Beach units since the Final LCR Study identifies a local capacity need to retain those resources.<sup>8/</sup> The PD directs Southern California Edison Company ("SCE") to negotiate contracts for these facilities, if possible, in order to prevent the need for backstop procurement of these resources.<sup>9/</sup> It provides further that SCE should enter into contracts "only if doing so is expected to be less costly than any applicable backstop procurement measures."<sup>10/</sup> Finally, the PD directs that "should any additional resources provide retirement notices, and should CAISO find that these resources are needed to meet local reliability needs for 2019, we hereby direct the

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<sup>8/</sup> *Id.* at p. 30.

<sup>9/</sup> PD, p. 30.

<sup>10/</sup> *Id.* at pp. 30-31.

Utilities to seek contracts to obviate the need for the backstop procurement on behalf of all customers its service area as an interim measure while more durable measures are developed.”<sup>11/</sup>

While SDG&E supports the Commission’s intent to avoid backstop procurement, it submits that the PD’s directive triggers significant concerns. First, the utilities should not function as the default backstop entity for capacity procurement in the bilateral market. Second, the proposal to require negotiation of contracts for specific facilities raises the same concern regarding “potentially costly” procurement as is cited in connection with exercise of the backstop procurement function.<sup>12/</sup> Ordering the utilities to procure specific resources gives the resource owner a significant negotiating advantage; the utilities have little leverage to negotiate favorable terms if they are legally obligated under a Commission decision to enter into an agreement and cannot walk away from the negotiation. While the PD’s instruction to enter into a bilateral contract only if doing so is expected to be less costly than any applicable backstop procurement appears to be intended to address this concern, this direction is impractical. It is not clear that the utility would know enough about the likely cost of backstop procurement to make this assessment and, even if the RMR pricing information was available, the resource owner could simply reduce its price to a level slightly below the RMR price and thereby continue to impose exorbitant cost on ratepayers. It is important to note that these costs would be allocated *only* to Commission-jurisdictional LSEs and not all ratepayers as would be the case under the CAISO’s RMR cost allocation mechanism.

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<sup>11/</sup> Id. at p. 31.

<sup>12/</sup> See *id.* at p. 4.



An approach more in line with the Commission’s attempt to “reduc[e] potentially costly backstop procurement” would be to encourage all Commission-jurisdictional LSEs to hold RA solicitations for 2019 that would allow resources to offer their capacities through a competitive process.<sup>13/</sup> If, at the conclusion of the year-ahead process, these reliability resources were not procured for 2019, the Commission could take action at that point to preempt the CAISO process.

***D. Alignment of Hours***

The PD seeks to align the CAISO’s “availability assessment hours” (“AAHs”), the standard hours during which an RA resource must be available for dispatch under the CAISO’s RA Availability Incentive Mechanism, with the Commission’s RA “measurement hours,” which establish Qualifying Capacity (“QC”) values for select resources such as non-dispatchable and demand response (“DR”) resources. As the PD notes, there were two proposals for achieving this alignment: (i) ED’s proposal that the CAISO submit the results of its annual AAH analysis into the RA proceeding for party comment and consideration by the Commission; and (ii) a proposal that the Commission hours be set by reference to the CAISO AAHs.<sup>14/</sup> The PD adopts the first of these proposals.

The PD discusses the proposal by SDG&E to establish AAHs by January 10 of each year in order to allow the Load Impact Protocol (“LIP”) assessments to utilize the new hours for the April filing. In making its proposal, SDG&E anticipated that the ED proposal would not be adopted by the Commission. Since the PD adopts the ED proposal, which *does* require annual Commission approval of the AAHs, a potential

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<sup>13/</sup> See PD, p. 4.

<sup>14/</sup> *Id.* at p. 36.

timing problem is created. The Commission's RA Decision is typically voted out in June of each year -- well past the April LIP filing deadline. Since AAHs will be used to design DR programs as well as LIP assessments, this timing mismatch will create situations in which SDG&E's DR programs cannot perform to "new" hours because the Commission did not adopt those hours in time for the year-ahead process. The PD should be revised to direct review this timing concern in future proceedings.

### **III. CONCLUSION**

For the reasons set forth above, the PD should be revised in accordance with the discussion herein.

Respectfully submitted this 11<sup>th</sup> day of June 2018.

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## **ATTACHMENT**

*Proposed Findings of Fact, Conclusions of Law and Ordering Paragraph*

### **Proposed Findings of Fact**

18. ~~Utility contracts with needed generation facilities may be less expensive than backstop procurement mechanisms.~~

20. Requiring the submission of the CAISO's annual AAH analysis into the RA proceeding for consideration by the Commission gives parties an opportunity to comment on any revision of hours, **but could potentially create timing issues for the Demand Response year-ahead process.**

\_\_\_ **The CAISO's LCR methodology is insufficiently transparent.**

\_\_\_ **The CAISO's LCR methodology omits relevant data regarding the Greater San Diego-Imperial Valley (SD-IV) and Los Angeles (LA) Basin areas necessary to assess cost-shift issues.**

\_\_\_ **If capacity is procured as solely Local or System (*i.e.*, the Flexible attribute is not recognized in the transaction), it is not possible to later amend the transaction to provide Flexible.**

\_\_\_ **The procurement of the Flexible attribute must occur at the time of the Local Capacity transaction.**

### **Proposed Conclusions of Law**

15. ~~Utilities~~ **Commission-jurisdictional LSEs** should be encouraged to **issue RA solicitations for 2019 to provide all generation facilities with the opportunity to offer capacity for sale for 2019.**~~negotiate~~

~~cost-effective contracts with generation facilities that may otherwise utilize backstop procurement mechanisms.~~

16. The CAISO's annual AAH analysis should be submitted into the RA proceeding for consideration as to whether (i) the Commission should adjust its RA measurement hours; and (ii) timing concerns regarding the Direct Access year-ahead process exist.

\_\_\_ . The CAISO should ensure transparency of the LCR methodology and provide the assumption data necessary to allow parties to test the validity of the study results.

\_\_\_ . The CAISO should examine the Greater SD-IV and LA Basin areas separately, in addition to examining these areas together.

\_\_\_ . The CAISO should provide the iterative results of the SD-IV area study in order to determine if any cost shifting occurs.

\_\_\_ . LSEs procuring multi-year Local capacity that is capable of flexibility should also procure the Flexible attribute.

### **Proposed Ordering Paragraph**

12. The California Independent System Operator Corporation's annual availability assessment hour analysis will be submitted into the resource adequacy proceeding for consideration as to whether (i) the Commission should adjust its resource adequacy measurement hours; and (ii) timing concerns exist for the Demand Response year-ahead process.